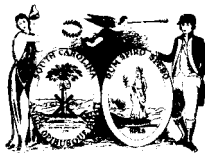


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

October 29, 2001

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Post-Acute Network  
15415 Katy Freeway, Suite 800  
Houston, Texas 77094

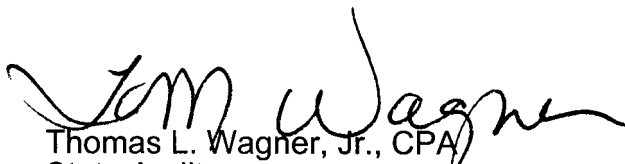
Re: AC# 3-OKB-J8 – GranCare South Carolina, d/b/a Oakbrook Healthcare Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**GRANCARE SOUTH CAROLINA  
D/B/A OAKBROOK HEALTHCARE CENTER  
SUMMERVILLE, SOUTH CAROLINA**

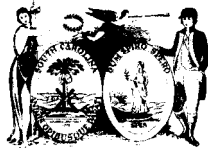
**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 1999  
AC# 3-OKB-J8**

**AGREED UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 24, 2001

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, d/b/a Oakbrook Healthcare Center, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. The management of GranCare South Carolina, d/b/a Oakbrook Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

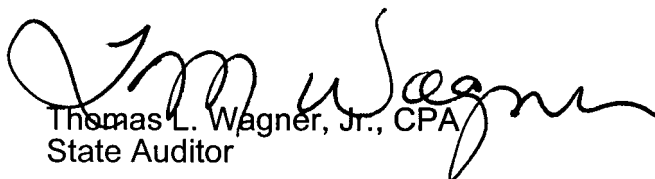
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, d/b/a Oakbrook Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, d/b/a Oakbrook Healthcare Center dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 24, 2001

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**OAKBROOK HEALTHCARE CENTER**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 1999  
AC# 3-OKB-J8

|                                | 10/01/99-<br><u>09/30/00</u> |
|--------------------------------|------------------------------|
| Interim Reimbursement Rate (1) | \$100.18                     |
| Adjusted Reimbursement Rate    | <u>89.84</u>                 |
| Decrease in Reimbursement Rate | \$ <u><u>10.34</u></u>       |

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

**OAKBROOK HEALTHCARE CENTER**

Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 1999 Through September 30, 2000  
AC# 3-OKB-J8

|  | <u>Incentives</u> | <u>Allowable<br/>Cost</u> | <u>Cost<br/>Standard</u> | <u>Computed<br/>Rate</u> |
|--|-------------------|---------------------------|--------------------------|--------------------------|
| <u>Costs Subject to Standards:</u>             |                   |                           |                          |                          |
| General Services                               |                   | \$36.82                   | \$44.29                  |                          |
| Dietary  |                   | 9.15                      | 10.24                    |                          |
| Laundry/Housekeeping/Maint.                    |                   | <u>7.47</u>               | <u>8.89</u>              |                          |
| Subtotal                                       | \$ <u>4.44</u>    | 53.44                     | 63.42                    | \$53.44                  |
| Administration & Med. Rec.                     | \$ <u>-</u>       | <u>13.52</u>              | <u>11.39</u>             | <u>11.39</u>             |
| Subtotal                                       |                   | 66.96                     | <u>\$74.81</u>           | 64.83                    |
| <u>Costs Not Subject to Standards:</u>         |                   |                           |                          |                          |
| Utilities                                      |                   | 2.46                      |                          | 2.46                     |
| Special Services                               |                   | 2.79                      |                          | 2.79                     |
| Medical Supplies & Oxygen                      |                   | 2.58                      |                          | 2.58                     |
| Taxes and Insurance                            |                   | 2.23                      |                          | 2.23                     |
| Legal Fees                                     |                   | <u>-</u>                  |                          | <u>-</u>                 |
| <b>TOTAL</b>                                   |                   | <u>\$77.02</u>            |                          | 74.89                    |
| Inflation Factor (3.00%)                       |                   |                           |                          | 2.25                     |
| Cost of Capital                                |                   |                           |                          | 8.71                     |
| Cost of Capital Limitation                     |                   |                           |                          | -                        |
| Profit Incentive (Max. 3.5% of Allowable Cost) |                   |                           |                          | -                        |
| Cost Incentive                                 |                   |                           |                          | 4.44                     |
| Effect of \$1.75 Cap on Cost/Profit Incentives |                   |                           |                          | (2.69)                   |
| CNA Add-On                                     |                   |                           |                          | .75                      |
| Nurse Aid Staffing Add-On                      |                   |                           |                          | <u>1.49</u>              |
| <b>ADJUSTED REIMBURSEMENT RATE</b>             |                   |                           |                          | <u>\$89.84</u>           |

**OAKBROOK HEALTHCARE CENTER**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1998  
AC# 3-OKB-J8

| <u>Expenses</u>                     | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DHHS</u> | Adjustments   |  | <u>Adjusted<br/>Totals</u> |
|-------------------------------------|---|---|--|----------------------------|
|                                     |   | <u>Debit</u>  | <u>Credit</u>  |                            |
| General Services                    | \$1,188,234   | \$ 6,661 (10)<br>39 (10)  | \$ 21,153 (3)<br>678 (3)<br>585 (8)<br>24,164 (9)<br>1,107 (9) | \$1,147,247                |
| Dietary                             | 286,404   | 814 (7)<br>1,925 (10)   | 3,182 (9)<br>428 (11)<br>597 (12)                              | 284,936                    |
| Laundry                             | 57,538  | -   | -  | 57,538                     |
| Housekeeping                        | 88,195  | -   | -  | 88,195                     |
| Maintenance                         | 106,283   | -   | 126 (3)<br>3,592 (7)<br>629 (9)<br>14,850 (10)                 | 87,086                     |
| Administration &<br>Medical Records | 544,467   | 12,868 (3)<br>2,953 (3)<br>618 (4)<br>585 (8)<br>533 (10)<br>1,267 (11) | 3,290 (7)<br>205 (7)<br>3,815 (9)<br>385 (9)<br>134,371 (10)   | 421,225                    |
| Utilities                           | 82,255  | -   | 4,145 (7)<br>57 (10)<br>1,560 (11)                             | 76,493                     |
| Special Services                    | 176,166   | 1,357 (5)   | 45 (3)<br>312 (7)<br>410 (9)<br>36,263 (12)<br>53,466 (13)     | 87,027                     |



**OAKBROOK HEALTHCARE CENTER**  
 Summary of Costs and Total Patient Days  
 For the Cost Report Period Ended September 30, 1998  
 AC# 3-OKB-J8

| <u>Expenses</u>              | Totals (From<br>Schedule SC 13) as<br><u>Adjusted by DH&amp;HS</u> | Adjustments  |   | <u>Adjusted<br/>Totals</u> |
|------------------------------|--|--|---|----------------------------|
|                              |  | <u>Debit</u>   | <u>Credit</u>   |                            |
| Medical Supplies<br>& Oxygen | 157,309  | 2,776 (3)  | 15,532 (5)<br>14,622 (6)<br>8,583 (7)<br>754 (8)<br>40,080 (12) | 80,514                     |
| Taxes & Insurance            | 87,272   | -  | 11,302 (4)<br>780 (7)<br>5,813 (10)                             | 69,377                     |
| Legal Fees                   | 11,437   | -  | 11,437 (10)   | -                          |
| Cost of Capital              | 323,212  | 712 (14)   | 9,655 (1)<br>28,632 (2)<br><u>14,398 (10)</u>                   | 271,239                    |
| Subtotal                     | 3,108,772  | 33,108   | 471,003   | 2,670,877                  |
| Ancillary                    | 182,205  | 2,139 (6)<br>2,103 (7)<br>754 (8)  | -   | 187,201                    |
| Non-Allowable                | 1,367,433  | 9,655 (1)<br>28,632 (2)<br>3,405 (3)<br>14,175 (5)<br>12,483 (6)<br>4,145 (7)<br>33,692 (9)<br>171,768 (10)<br>76,940 (12)<br><u>53,466 (13)</u> | 2,336 (11)<br>712 (14)  | 1,772,746                  |
| Total Operating<br>Expenses  | <u>\$4,658,410</u>   | <u>\$446,465</u>   | <u>\$474,051</u>  | <u>\$4,630,824</u>         |
| TOTAL PATIENT DAYS           | <u>31,156</u>  | <u>-</u>   | <u>-</u>  | <u>31,156</u>              |

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-OKB-J8

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 1                            | Accumulated Depreciation  | \$57,741     |               |
|                              | Other Equity  | 18,710       |               |
|                              | Nonallowable  | 9,655        |               |
|                              | Fixed Assets  |              | \$76,451      |
|                              | Cost of Capital   |              | 9,655         |
|                              | To adjust fixed assets and related depreciation<br>HIM-15-1, Section 2304<br>State Plan, Attachment 4.19D   |              |               |
| 2                            | Nonallowable  | 28,632       |               |
|                              | Cost of Capital   |              | 28,632        |
|                              | To remove amortization expense related to organization and loan cost<br>State Plan, Attachment 4.19D  |              |               |
| 3                            | Administration  | 12,868       |               |
|                              | Medical Records   | 2,953        |               |
|                              | Medical Supplies  | 2,776        |               |
|                              | Nonallowable  | 3,405        |               |
|                              | Nursing   |              | 21,153        |
|                              | Restorative   |              | 678           |
|                              | Maintenance   |              | 126           |
|                              | Special Services  |              | 45            |
|                              | To reclassify expense to the proper cost center and disallow expense due to lack of adequate documentation<br>HIM-15-1, Section 2304<br>DH&HS Expense Crosswalk |              |               |
| 4                            | Administration  | 618          |               |
|                              | Prepaid Expense   | 10,684       |               |
|                              | Taxes and Insurance   |              | 11,302        |
|                              | To remove duplicate payment of business license and reclassify expense to the proper cost center<br>HIM-15-1, Section 2304<br>DH&HS Expense Crosswalk           |              |               |

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Report Period Ended September 30, 1998  
AC# 3-OKB-J8

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|------------------------------|---|--------------|---------------|
| 5                            | Nonallowable  | 14,175       |               |
|                              | Special Services  | 1,357        |               |
|                              | Medical Supplies  |              | 15,532        |
|                              | To reclassify expense to the proper cost center and disallow expense due to lack of adequate documentation<br>HIM-15-1, Section 2304<br>DH&HS Expense Crosswalk   |              |               |
| 6                            | Ancillary   | 2,139        |               |
|                              | Nonallowable  | 12,483       |               |
|                              | Medical Supplies  |              | 14,622        |
|                              | To reclassify expense to the proper cost center and disallow expense due to lack of adequate documentation<br>HIM-15-1, Section 2304<br>DH&HS Expense Crosswalk   |              |               |
| 7                            | Retained Earnings   | 13,845       |               |
|                              | Dietary   | 814          |               |
|                              | Ancillary   | 2,103        |               |
|                              | Nonallowable  | 4,145        |               |
|                              | Maintenance   |              | 3,592         |
|                              | Administration  |              | 3,290         |
|                              | Medical Records   |              | 205           |
|                              | Utilities   |              | 4,145         |
|                              | Taxes and Insurance   |              | 780           |
|                              | Medical Supplies  |              | 8,583         |
|                              | Special Services  |              | 312           |
|                              | To properly charge expense applicable to the prior period, reclassify expense to the proper cost center, and disallow cable TV expense<br>HIM-15-1, Sections 2106.1 and 2302.1<br>DH&HS Expense Crosswalk |              |               |
| 8                            | Medical Records   | 585          |               |
|                              | Ancillary   | 754          |               |
|                              | Nursing   |              | 585           |
|                              | Medical Supplies  |              | 754           |
|                              | To reclassify expense to the proper cost center<br>DH&HS Expense Crosswalk  |              |               |

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Period Report Ended September 30, 1998  
AC# 3-OKB-J8

| ADJUSTMENT<br><u>NUMBER</u> | <u>ACCOUNT TITLE</u>  | <u>DEBIT</u> | <u>CREDIT</u> |
|-----------------------------|---|--------------|---------------|
| 9                           | Nonallowable  | 33,692       |               |
|                             | Nursing   |              | 24,164        |
|                             | Restorative   |              | 1,107         |
|                             | Dietary   |              | 3,182         |
|                             | Maintenance   |              | 629           |
|                             | Administration  |              | 3,815         |
|                             | Medical Records   |              | 385           |
|                             | Special Services  |              | 410           |
|                             | To adjust fringe benefits and related allocation              |              |               |
|                             | HIM-15-1, Section 2304  |              |               |
|                             | State Plan, Attachment 4.19D                                  |              |               |
| 10                          | Nursing   | 6,661        |               |
|                             | Restorative   | 39           |               |
|                             | Dietary   | 1,925        |               |
|                             | Medical Records   | 533          |               |
|                             | Nonallowable  | 171,768      |               |
|                             | Maintenance   |              | 14,850        |
|                             | Administration  |              | 134,371       |
|                             | Legal   |              | 11,437        |
|                             | Utilities   |              | 57            |
|                             | Taxes and Insurance   |              | 5,813         |
|                             | Cost of Capital   |              | 14,398        |
|                             | To adjust home office cost allocation                         |              |               |
|                             | HIM-15-1, Section 2304  |              |               |
|                             | State Plan, Attachment 4.19D                                  |              |               |
| 11                          | Other Income  | 3,057        |               |
|                             | Administration  | 1,267        |               |
|                             | Dietary   |              | 428           |
|                             | Utilities   |              | 1,560         |
|                             | Nonallowable  |              | 2,336         |
|                             | To properly offset income against related expense             |              |               |
|                             | HIM-15-1, Sections 2102.3 and 2328                            |              |               |
|                             | State Plan, Attachment 4.19D                                  |              |               |
| 12                          | Nonallowable  | 76,940       |               |
|                             | Dietary   |              | 597           |
|                             | Medical Supplies  |              | 40,080        |
|                             | Special Services  |              | 36,263        |
|                             | To remove special (ancillary) services reimbursed by Medicare |              |               |
|                             | State Plan, Attachment 4.19D                                  |              |               |

**OAKBROOK HEALTHCARE CENTER**  
Adjustment Report  
Cost Period Report Ended September 30, 1998  
AC# 3-OKB-J8

| <u>ADJUSTMENT<br/>NUMBER</u> | <u>ACCOUNT TITLE</u>   | <u>DEBIT</u>     | <u>CREDIT</u>    |
|------------------------------|--|------------------|------------------|
| 13                           | Nonallowable<br>Special Services   | 53,466           | 53,466           |
|                              | To adjust co-insurance for<br>Medicare Part B services<br>State Plan, Attachment 4.19D |                  |                  |
| 14                           | Cost of Capital<br>Nonallowable  | 712              | 712              |
|                              | To adjust capital return<br>State Plan, Attachment 4.19D                               |                  |                  |
|                              |  |                  |                  |
|                              | Total Adjustments  | <u>\$550,502</u> | <u>\$550,502</u> |

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**OAKBROOK HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-OKB-J8

|  |                       |
|--|-----------------------|
| Original Asset Cost (Per Bed)                                      | \$ 15,618             |
| Inflation Adjustment   | <u>2.2493</u>         |
| Deemed Asset Value (Per Bed)                                       | 35,130                |
| Number of Beds   | <u>88</u>             |
| Deemed Asset Value   | 3,091,440             |
| Improvements Since 1981  | 355,692               |
| Accumulated Depreciation at 9/30/98                                | <u>(964,416)</u>      |
| Deemed Depreciated Value   | 2,482,716             |
| Market Rate of Return  | <u>0.063</u>          |
| Total Annual Return  | 156,411               |
| Return Applicable to Non-Reimbursable<br>Cost Centers              | -                     |
| Allocation of Interest to<br>Non-Reimbursable Cost Centers         | <u>-</u>              |
| Allowable Annual Return  | 156,411               |
| Depreciation Expense   | 114,525               |
| Amortization Expense   | 316                   |
| Capital Related Income Offsets                                     | (13)                  |
| Allocation of Capital Expenses to<br>Non-Reimbursable Cost Centers | <u>-</u>              |
| Allowable Cost of Capital Expense                                  | 271,239               |
| Total Patient Days (Minimum 97% Occupancy)                         | <u>31,156</u>         |
| Cost of Capital Per Diem   | <u><u>\$ 8.71</u></u> |

**OAKBROOK HEALTHCARE CENTER**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1998  
AC# 3-OKB-J8

|  |              |
|--|--------------|
| 6/30/89 Cost of Capital and Return on Equity |              |
| Capital Per Diem Reimbursement               | \$ 7.79      |
| Adjustment for Maximum Increase              | <u>3.99</u>  |
| Maximum Cost of Capital Per Diem             | <u>11.78</u> |
| Reimbursable Cost of Capital Per Diem        | \$ 8.71      |
| Cost of Capital Per Diem                     | <u>8.71</u>  |
| Cost of Capital Per Diem Limitation          | \$ <u>-</u>  |

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